



**USAID**  
FROM THE AMERICAN PEOPLE

**LED UKRAINE**  
UKRAINE LOCAL ECONOMIC DEVELOPMENT

**Quarterly Report for the Period:**

**July 1 to September 30, 2005**

**Submitted to:**

**Bill Schlansker, Cognizant Technical Officer  
USAID Mission for Ukraine, Moldova and Belarus**

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**CHEMONICS INTERNATIONAL INC.**

## QUARTERLY PROGRESS REPORT

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### A. Project Purpose and Approach

*Purpose.* The purpose of the Local Economic Development (LED) project in Ukraine is to establish essential infrastructure that will enable Ukrainian city governments to attract investment, promote business development, and provide for jobs creation in a democratic manner and on an on-going basis.

*Approach.* The LED project provides Ukrainian communities with focused and organized technical assistance and training in the development and implementation of realistic strategic plans for local economic development. Though an open and transparent strategic planning process the project works hand-in-hand with city government officials, business and community leaders, and local government service organizations to foster constructive relationships between local government, the business community, and the non-governmental sector and build their sustainable capacity to attract investment, promote business development, and provide for jobs creation.

### B. Significant Events and Achievements

- All six of the first wave target cities have completed their strategic plans for economic development.
- Four of the six first wave target cities held public hearings to present their strategic plans to the community to answer questions and solicit input.
- Pryluky city council adopted its strategic plan for economic development on September 28<sup>th</sup>.
- The first volume of the LED Municipal Toolkit was completed and submitted to USAID for review.
- Round two cities were selected and given preparatory tasks in anticipation of first strategic planning committee meetings in October.
- The Innovation Fund Manual was complete and will be submitted to USAID at the beginning of the subsequent quarter.
- On September 21 USAID approved supplemental funding to increase the size of the Innovation Fund, design and implement a local/regional program of foreign direct investment, and to help draft and implement legislation to support local government.

### C. Task Activities

*Task 1: Participating City Selection Process.* Nine cities were identified and approved by USAID for participation in the second wave of strategic. These cities include Drohobych (Lviv Oblast), Kovel (Volyn Oblast), Nizhyn (Chernigiv Oblast), Brovary (Kyiv Oblast), Yevpatoria (Crimea), Dzhankoy (Crimea), Kupyansk (Kharkiv Oblast) and Rovenky (Luhansk Oblast), and Ternopil (Ternopil Oblast). In addition, the mentor city of Kamyanets-

Podilsky will be developing a new strategic plan for economic development under the guidance of two of LED's first wave LGSO trainees.

*Task 2: Building Ukrainian Capacity.*

Sub-task A: Municipal LED Toolkit

LED finished the Ukrainian version of the first volume of the LED toolkit. This was translated into English and submitted to USAID for review and approval in July. At the end of September, USAID requested editing of the English translation before review could be completed. Work commenced on volume two of the series to focus on best Ukrainian and international practices.

Sub-task B: Building LGSO Capacity

During the quarter ERUM made significant progress building the capacity of LGSOs. With the first wave of strategic planning nearly complete, eight LGSO trainees have been trained in local economic development strategic planning facilitation. They will continue their training with one more round of strategic planning in the wave two cities. Eight additional LGSO consultants were selected to take part and be trained in round two strategic planning activities.

Four training seminars were held during the quarter for LGSOs. In July, training on consulting skills was held in Ivano-Frankivsk for 20 LGSO consultants. In August, two training seminars entitled "LED Best Practices in Ukraine and Abroad" were held in Donetsk and Kharkiv. A seminar for all sixteen LGSO strategic planning consultants was held in Kyiv so that wave one consultants could share their experiences with the new wave two consultants.

Based on a nationwide survey conducted in the Spring of 2005, a LGSO sourcebook containing contact information and organizational competencies for 135 LGSOs was prepared for distribution to local governments and other interested parties in the next quarter.. (Exceeds contract requirements.)

*Task 3: Strategic Plan Development.*

*Wave 1 Cities.* In July and August all six of the Wave one cities held task force meetings during which objectives and tasks were identified. The number of goals, objectives and tasks developed by each city are as follows:

City	Goals	Objectives	Tasks
Pryluky	9	20	62
Ivano-Frankivsk	10	28	86
Kaniv	9	36	160
Pavlohrad	10	29	154
Kalush	9	23	95
Chortkiv	8	30	156

In late August and early September, all six cities held meetings of their strategic planning committees (SPCs) to discuss, prioritize, and approve the goals and objectives developed by the committees' task forces. Also during this time, Ivano-Frankivsk, Pryluky, Kalush and Kaniv held their public hearings to present the major components of the draft strategic plans to the public and to solicit the community's input.

By the middle of September all first wave cities conducted the final meetings of their SPCs during which the action plans developed by task forces were discussed and approved. With the approval of the action plans, all the components of the strategic plans for the first wave were completed. The plans were prepared for adoption by city councils. LED began the translation of the plans for submission to USAID.

#### *Establishing MOEDs in Wave 1 Cities.*

The city of Kalush is in the process of establishing a MOED within their existing economic department. In September the local council passed legislation officially recognizing and establishing the department within city hall.

The local council in Chortkiv established and approved the creation of a MOED in September. An executive director has been appointed and the department is in the process of being organized.

In the city of Pryluky an economic development department existed but with different functions than those proposed by the LED project. The city is in the process of reassigning the functions of this department and has set a deadline of March 2006 for the new department to be operating on a full-scale basis.

Ivano-Frankivsk, the most advanced of the LED project's first wave cities, already has a municipal office of economic development but in September, appointed the deputy mayor for economics to the position of economic development director.

On October 31<sup>st</sup>, the city of Kaniv is planning to hold a session of the local council to approve the structure of a new MOED within the existing economic department and to appoint an executive director.

The city of Pavlohrad is planning a similar session for late October or early November.

<b>Status of MOEDs in Wave 1 Cities</b>		
<b>City</b>	<b>Local Council Approved</b>	<b>Director Appointed</b>
Kalush	✓	✓
Chortkiv	✓	✓
Ivano-Frankivsk	✓	✓
Kaniv	Expected Oct 31	Expected Oct 31
Pavlohrad	Expected Oct/Nov	Expected Oct/Nov
Pryluky	✓	✓

*Wave 2 Cities.* At the end of August and beginning of September eight second wave cities had their preparatory meetings with LED consultants in order to discuss and agree upon work schedules for the strategic planning process, principles and deadlines for setting up SPCs, agendas and conditions for running the first SPC meetings, and other priority issues. It was agreed in each of these cities that draft strategic plans for second wave cities would be completed by February 10, 2006.

The work to develop Community Profiles for each of the second wave cities has already begun. To prepare the cities for this activity, a workshop for local government officials responsible for developing community profiles and the newly hired LGSO trainees was held on September 14.

### **Mentor Cities**

Kamyanets Podilsky began a new strategic planning process for economic development activities with the consultation of LED-trained LGSO consultants. The city has named a strategic planning committee and its first meeting was held on August 26. The SPC members showed enthusiasm and a very positive attitude towards participating in the development of a new city strategic development plan. In September the SPC began collecting information needed for its Community Profile and began the interviews for the Business Attitude Surveys.

LED hired Lidya Volosyanko to head the fourth LED strategic planning team. Lidya was selected from among the round one LGSO trainees. She is from Ivano-Frankivsk where she headed an economic development agency that worked closely with the city government.

### *Task 4: Implementation of LED Strategic Plans*

*Support for Target Cities.* Training was provided to wave one cities on strategic plan implementation including a review of the action plan schedule and the use of the WISP (Web-based Information system for Support of Project implementation) program. WISP is a software tool used for monitoring the quality and implementation of tasks identified in the strategic plans. The software was translated and installed in each city during the last quarter.

Members from the strategic plan implementation management committees (IMC) in each city were appointed. The members include the SPC Chairs, leaders of task forces and one or two city government representatives.

The Innovation Fund Manual was completed. In addition, LED hired Oleh Pluhatarenko to serve as the Innovation Fund Manager. Mr. Pluhatarenko has directly relevant experience having worked for six years as the finance and legal coordinator (grants manager) for the USAID-funded PAUCI program.

### *Mentor Cities*

Kamyanets Podilsky submitted a proposal to the Innovation Fund for the development of a permanent tourism board. This proposal was translated and forwarded to USAID for review.

Komsomolsk provided information about their best practices and experience in LED that will be included in the first issue of LED journal

Berdyansk prepared proposals on participation of the city in the LED Project and finalized its list of LED priorities that may be supported or strengthened with resources from the Project. Berdyansk also hosted a seminar on its local government's best practices. LED has made an agreement with Azov Academy of Management and Information Technologies to provide training to other cities on Berdyansk's experience including the ISO 9000 certification and practices.

#### *Task 5: Legal and Regulatory Framework.*

##### *Support for Legal and Regulatory Reform*

Following the USAID-supported AUC conference on June 23-24 in Berdyansk, LED translated AUC's concept presentation on the organization's priorities for legal reform and, concerning the areas of legal reform allocated to LED, AUC's priorities are the following:

- Changes to the Constitution of Ukraine in sections dealing with organs of executive authority on the local and regional levels, administrative-territorial systems and local government
- Local elections
- Territorial reform (administrative-territorial systems), formation of territorial basis for local government [*Note: the above three points were pointed out as the most important work through September 2005.*]
- Status of local citizens, membership of local citizens
- Local government administration on different territorial levels (specifically on all territorial levels including population point, rayon, oblast and the cities of Kyiv and Sevastopol)
- Division of responsibility and authority among local government bodies and state executive bodies and within the system of local government
- Improve the institution of local government civil servants, the rules of compensation for local government servants
- Improve the status of city council deputies, mayors of villages, towns and cities, guarantee for their activities
- Creation of a system for training, retraining and increasing qualifications for local government management
- Empowerment of local citizens (referendums, general local meetings, etc.)
- Neighborhood committees
- City charters
- Local civics education
- Status of associations (and other voluntary organizations) of local government
- Organizational-legal forms of cooperation between population points

LED analyzed a set of five draft laws on territorial divisions, communities, rayons, oblast and the state administration's representation at the local level and presented USAID with summary and analysis of the findings.

In August, LED contracted an independent consultant to write a report on the status of various groups working on local government law reform. The report was finalized in September and is currently completing translation and editing before submission to USAID.

On August 9, in cooperation with World Bank, LED organized a meeting between about 30 representatives of donor organizations including USAID, USAID-funded projects, other donor-funded projects, Ukrainian NGOs and think tanks to discuss initiatives in local government legal reform. As a result, AUC created a working group on the law for election reform. LED representatives attended three meetings of the working group and prepared a synopsis and analysis of key laws for discussion.

Throughout August, LED met several times with AUC's deputy executive director, Viktor Kravchenko, to coordinate activities on legal reform including providing support to AUC to carry out a series of regional press clubs to inform journalists and the public about possible variations to the electoral system under consideration. LED also met with CURE three times to prepare a work plan for five regional press clubs.

From the beginning of September, LED contracted with lawyer and local government advocate, Julia Sedyk, to assist in coordination of assistance to AUC and to work on the compilation of a database of relevant local government laws from other countries that can be translated into Ukrainian and then used as a comparative analysis of different systems. Throughout the month Ms. Sedyk met with experts and organizations to determine which materials are already translated, which materials need to be translated, and to identify potential experts who be able to provide a comparative analysis.

On September 2, USAID requested LED not to engage in activities related to the question of administrative-territorial reform until given notice at a future time regarding USAID's policy on this matter.

On September 7, LED attended a round table at the Verkhovna Rada (VR) to discuss a new compromise bill on changes to the election law. The meeting was chaired by Viktor Kravchenko, Yuri Kluchkovsky and Yarema Bachinsky. The chairs announced the creation and registration of a new compromise bill on election laws to be debated by the VR in the next session. Mr. Kravchenko thanked LED for organizing the aforementioned round table at the World Bank as it provided the impetus for different sides to come together to find a compromise on many of the most controversial issues. As a result of new bill, the plan for regional press clubs on election legislation was cancelled.

LED received USAID approval to partially fund AUC's annual all-municipal hearing which took place September 19-21 in Alushta. LED participants took part in the conference, providing a three hour presentation on the September 21<sup>st</sup>. During the conference, LED gave a presentation of the project to Earl Gast, Gary Linden and Bill Schlansker.

On September 21, USAID notified LED that its proposal for helping draft and implement legislation to support local government, as well as to increase the Innovation Fund and implement a program for FDI, was approved.

#### *FDI Initiatives*

On July 13<sup>th</sup>, LED took part in roundtable called “The Ukrainian Investment Promotion Agency” organized by the Ministry of Economy of Ukraine and the International Centre for Policy Studies. The following day, in Kharkiv, LED and USAID met with Kharkiv Oblast Deputy Governor Yaroslav Yushchenko to discuss cooperation in creating a regional agency for promotion and attraction of foreign direct investment.

As a follow up to a previous meeting in June, LED met with Lviv Oblast Deputy Governor Valeiry Pyatak in Kyiv to continue discussions on assistance in the creation of a regional agency for promotion and attraction of foreign direct investment. LED worked to help the Lviv Oblast prepare a budget for start-up and the first two years of operating costs which was translated and sent to USAID.

On August 3<sup>rd</sup>, LED met with Deputy Minister of the Economy Volodymyr Ihnashenko to outline possible forms of assistance to the GOU in creating a national agency for promotion and attraction of foreign direct investment. Mr. Ihnashenko invited two LED staff members to sit on the advisory board. LED staff took part in advisory board meetings and drafted analysis and recommendations for changes to the law on investment.

LED also met with the AUC to discuss joint training activities in FDI certification.

On August 18<sup>th</sup>, LED met with USAID to discuss the division of responsibilities between different USAID partners in the sphere of FDI technical assistance. It was decided that LED would focus on regional and municipal human resource development and would not take part in activities on the national level until further notice.

On September 8<sup>th</sup>, LED met with the OSCE to discuss cooperation in regional foreign direct investment. For the last two years OSCE has been working with the Rivne oblast to create a regional investment agency. OSCE covers start-up and operating costs. The two projects continue to discuss the formation of cooperative projects wherein LED will focus on human resource development. Subsequently, the Eurasia Foundation has expressed interest in taking part in cooperative projects.

On September 14<sup>th</sup> LED met with representatives of EBRD to discuss the general outlook for municipal investment and EBRD’s plans to create a municipal financing facility.

LED took part in and made presentations for investments conferences in both Sumy (September 15-16) and Zhytomyr (September 16-17).

On September 28, LED met with IBM WTO consultant Barry Kolodin about cooperation between projects.

LED hired Tamara Saksonova to provide translating and interpreting support for the FDI team.



*Task 6: Regional Economic Development Support.*

No significant activities this quarter.

*Task 7: Information Dissemination.*

*Journal of Local Economic Development.* The journal was officially registered in July. A contract was signed to allow the Journal to be distributed through the postal service. A distribution list of approximately 2000 addresses has been developed. (Exceeds contract requirements.)

*Web Site Development.* The test version of the Project web-site is available for public on [www.erum.org.ua/index2.php](http://www.erum.org.ua/index2.php). The official opening of the web-site will take place when the section on target cities is complete.

*Increasing the Capacity of Public Information Sources to Communicate on LED.* A public hearing on FDI issues was held in Kalush on July 1, and attracted significant media attention. More than ten articles were written in the local and regional press and regional, as well as national, TV and radio outlets covered the event. In late August, public hearings on the strategic planning process were held in Ivano-Frankivsk, Pryluky, Kalush and Kaniv.

In cooperation with Ukraine Reform Education Program (CURE), four regional seminars for local journalists were held. The seminars were attended by a total of 66 journalists. In feedback questionnaires the journalist wrote that the training had changed and improved their understanding of the role of community and local government in LED. They learned that strategic planning can mobilize all sectors of a community to build partnerships and work together for economic growth in a city. A further benefit of the seminars is that LED now has a network of journalists who can contribute to the ERUM Journal. An article from Ternopil is intended for publication in the first issue. (Exceeds contract requirements.)

*Other Activities*

*Monitoring and Evaluation.* The Institute of Reforms completed a baseline study on the status of local economic development in Ukraine. A draft report was submitted in September and returned for further revisions.

*USAID Branding Initiative.* LED met with USAID's Joanne Giordano and Roman Woronowyc regarding the new USAID branding policy and its implications for the LED project. Based on that meeting the name of the project has been changed from ERUM and EPYM, in English and Ukrainian respectively, to LED and ERM, respectively. Furthermore, LED has developed a new branding identity for the project that incorporates both USAID's logo and the new project name. The logo (pictured on the cover of this report) is awaiting approval by Ms. Giordano.

*Office Annex.* LED leased an annex office located at Andrevsky Uzviz 11, apartment 3, to house new personnel to work on supplemental projects.

*Staff Retreat.* The LED team traveled to Bukovel in the Ivano-Frankivsk oblast to participate in a three-day staff retreat on September 22-24. Team-building activities, work planning, and strengthening of internal and external communications were the main focuses of the retreat.

#### **D. Project Progress**

<b>Tasks and Indicators Per Work Plan</b>	<b>Cumulative Status</b>
<b>Task 1: Participating City Selection Strategy</b>	
• City selection strategy and criteria submitted to USAID	<i>Yes</i>
• 50 cities selected	<i>15 of 50</i>
• Graduation criteria for participating cities submitted to USAID	<i>Yes</i>
<b>Task 2A: Building Ukrainian Capacity – Development of Municipal LED Toolkit</b>	
• Toolkit volume 1 completed	<i>In Process</i>
• Toolkit volume 2 completed	<i>Pending</i>
• 40 local and regional seminars on best practices and lessons learned	<i>9 of 40</i>
<b>Task 2B: Building Ukrainian Capacity – LGSOs Capacity Increased</b>	
• 50 LGSO trainers trained and engaged in training stakeholders	<i>8 trained in LED Strategic Planning</i>  <i>9 more in process for Strategic Planning</i>  <i>134 trained in other LED issues</i>
<b>Task 3: Strategic Plan Development</b>	
• 1,500 municipal, local business, and NGO reps trained in LED	<i>266 of 1,500</i>  <i>Approx. 280 more in process</i>
• LED strategic plans created in 45 cities	<i>6 of 45 complete (pending approval by local councils)</i>  <i>9 more in process</i>
• 5 study tours to near east countries	<i>0 of 5</i>
<b>Task 4: Implementation of LED Strategic Plans</b>	
• 45 cities develop project action register	<i>6 of 45</i>
• 45 cities implement at least one high-priority project	<i>0 of 45</i>
• Innovation Fund approved by USAID	<i>Pending</i>
• Certification concept and Innovation Fund approved by USAID to match	<i>Pending</i>

LGSO's to cities and fund planning and implementation	
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#### **Task 5 : Legal and Regulatory Framework**

• 45 cities improve local regulations to improve business environment and enhance attractiveness for investment	<i>0 of 45</i>
• 3 public information campaigns conducted in Years 2 thru 5	<i>Not yet due</i>
• 3 public hearings held in Years 2 and 3	<i>Not yet due</i>
• Report published on the national legal and regulatory environment for LED	<i>Not complete</i>
• Publish handbook on best regulatory practices	<i>Not complete</i>

#### **Task 6: Regional Economic Development Support**

• 3 economic development plans prepared and adopted by cities	<i>0 of 3</i>
• Each partnership implements one high-priority project component	<i>Not complete</i>

#### **Task 7: Information Dissemination**

• Outreach and communication strategy developed for non-target cities	<i>Complete</i>
• 20 non-target cities embrace principles and practices of project	<i>0 of 20</i>
• Journal on LED issues and best practices developed and distributed nationwide (exceeds contract requirements)	<i>In process</i>
• Through local and regional seminars, media awareness of LED issues and current events in their communities increased (exceeds contract requirements")	

### **E. Reports and Deliverables**

- Quarterly Progress Report #5 for the period July-September 2005
- Municipal LED Toolkit, Vol. 1
- Wave 2 strategic planning cities selected

### **F. Performance Challenges**

No significant performance challenges were confronted during the quarter.

### **G. Status of Budget Expenditures**

Contract Budget:	\$12,908,311.00
Obligated Funds:	\$7,460,000.00
Actual Expenditures thru August 2005:	\$2,161,250.44
Anticipated Expenditures thru Sept. 2005:	\$2,375,000.00
Balance of Obligated Funds:	\$5,085,000.00

## **H. Activities Planned for Next Quarter**

### *Task 1: Participating City Selection Process.*

LED will conduct a site visit to Ternopil to gauge the city's interest in participating in LED project activities during October.

LED will review the city selection process with USAID.

### *Task 2: Building Ukrainian Capacity.*

#### Sub-task A: Municipal LED Toolkit

Following review and approval by USAID, the first volume of the toolkit will be published and initially distributed to target cities. The toolkit will also be made available on the project website. Materials will continue to be collected for the second volume of the toolkit which will focus on implementation tools.

#### Sub-task B: Building LGSO Capacity

Three training seminars will be held during the next quarter including, "Quality management in Local Government (ISO 9001:2000)" and "The Role of Strategic Planning in LED".

In addition, the final draft of the LGSO Resource Book will be published and distributed to LGSOs and city government officials.

### *Task 3: Strategic Plan Development.*

*First Wave Cities.* It is expected that all six wave one cities will have their plans approved by city councils by December. Cities will enter strategic planning information and work plan activities into the WISP program, which will be published on the internet for monitoring by both implementors and the public, with varying levels of access to information.

Public hearings in Pavlohrad and Chorkiv are scheduled to take place in October.

Strategic plans of wave two cities to be submitted to USAID.

*Study Tour.* A study tour to the Czech Republic is planned for November 23 to December 1. Two representatives from each wave one city and one from each mentor city have been invited to participate. The program is currently being developed and will be submitted to USAID for review.

*Second Wave Cities.* In October, second wave cities will hold the first meetings of their SPCs. Both the Business Attitude Surveys and Community Profiles will be completed by the end of that month. In November, the SPCs will identify economic development critical issues for their cities, develop strategic visions, conduct SWOT Analyses and set up action plan task forces. In December, task forces will develop goals and objectives for their strategic plans.

*Task 4: Implementation of LED Strategic Plans.*

First wave cities will be trained in the entry of data to the WISP online implementation and monitoring software tool on October 14.

LED will submit the Innovation Fund Manual to USAID for review and approval. Pending approval and adoption of the strategic plans by the city councils in each of the first wave cities, use of the Innovation Fund to support the implementation of specific projects may begin in the next quarter.

*Task 5: Legal and Regulatory Framework.*

*Legal and Regulatory Assistance.* LED will continue to work on the Ukrainian-language database of laws from other European countries and, contingent upon approval from USAID, the Project will work with the AUC to develop draft laws and provide public education on administrative-territorial reform issues.

*Foreign Direct Investment.* LED will make a site visit to the Rivne Investment Agency and Lviv Oblast Administration with OSCE to explore a project of cooperation. LED consultants will begin development of a FDI professional training curriculum.

*Task 6: Regional Economic Development Support.*

LED will coordinate with USAID on the development of regional selection criteria, with the goal of initiating regional site visits by the end of the quarter.

*Task 7: Information Dissemination.* Readers will receive the two issues of the LED Journal, *ERUM*, during the next quarter. The Project website is also scheduled for completion in October.

Journalist orientation sessions will be held in each of the wave two cities to introduce the local media to the project, to describe the experiences from the first wave of cities, prepare them for the public hearings that will be held, and to generally encourage the local media to begin covering local economic development issues in their communities.

A roundtable of mayors from the first and second wave cities will be held in Kyiv in October or November that will allow the first wave mayor to share their experiences and the second wave mayors to express their expectations. It will also serve as an opportunity for the mayors to discuss tools used in Ukraine for encouraging local economic development that have worked well and those that have not.

*Other Activities.*

*Monitoring and Evaluation.* A report on the status of local economic development based on the Institute of Reforms baseline study will be prepared and submitted to USAID.

## **I. Other Issues Affecting Project Progress**

There are no other issues currently affecting project progress.